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MITI Bolsters Support for High Technology

The Ministry of International Trade and Industry (MITI) is increasingly focusing its activities on the high technology sector in response to the evolution of the Japanese economy. Over the past few months, MITI has announced several projects designed to provide improved support for public and private research in key emerging technologies. More significantly, the ministry has unveiled an ambitious plan to provide greater tax incentives to firms engaged in research and devlopment in selected areas. While these moves enjoy widespread rhetorical support, some very tough financial obstacles must be scaled before MITI's plans can be implemented.

Fostering research and development is certainly not a new task for MITI. In 1966 MITI's research arm, the Agency of Industrial Science and Technology (AIST), initiated the National Research and Development Program (NRDP) to underwrite complete R&D projects that the government considers to be of the highest national priority but that are too expensive, risky and long term for the private sector to undertake on its own (see JEI Report No.

- Outlays for stockpiling strategic metals would jump 29 percent to $5.9 million.

- A 4.5 percent drop is planned for small business promotion projects.

While impressive sounding, nearly all of MITI's initiatives must be approved by the Ministry of Finance, the cabinet and the Diet before being funded and implemented. Indeed, Prime Minister Nakasone has thrown his personal support behind high technology R&D, but the scramble for funds may make a shambles of these well-laid plans. Although there are political obstacles in the way of increased spending, they are not insurmountable, and R&D spending is one category that is free of the negative ceiling applicable to FY 1985 budget requests. MITI has often floated trial balloons expounding wonderful plans, only to have them disappear when actual budgets are hammered out. This may again be the fate of a number of the agency's proposals. The ministry's actions over the next few months will indicate what it considers its highest priorities.

Jon Choy

Aging Capital Stock Worries Japan

Most observers would agree that one reason for Japan's excellent economic track record is its modern plant and equipment. There is increasing evidence, though, that the country's capital stock is aging. According to estimates by one of Japan's major business newspapers, the average age of the capital stock rose from 5.01 years in FY 1974 to 5.67 years in FY 1983. While this increase of over half a year may not sound devastating, it has caused worried debates in Japan when compared with the same figures for the United States. Citing Standard & Poor's Corp. estimates that the average age of the U.S. capital stock had improved from 7.26 years in 1974 to 5.42 years in 1983, a host of authorities are now calling for stepped-up capital spending and improved investment incentives.

The average age of plant and equipment for both countries is summarized in the following table and highlights some surprising changes. Whereas Japan's capital stock was newer in every listed sector in FY 1974 (with the possible exception of semiconductor equipment), by 1983, four U.S. industries -- oil refining, cement, shipbuilding and motor vehicles -- had newer plant and equipment than their Japanese counterparts. The American automotive industry, the most significant of these sectors, now has a capital stock that averages 0.7 years younger than its Japanese competitor. How much, if any, recent Japanese investments in U.S. automotive production facilities affect this comparison is not clear.

While the Japanese lead is still large in some industries -- 3.84 years in steel, 2.90 years in textiles, and 2.32 years in precision machinery -- the average gap for major manufacturing industries has fallen from 3.16 years in FY 1974 to just 0.71 years in FY 1983. The reason for this is clear: while nearly every U.S. industry (except spinning and weaving, semiconductors and precision machinery) upgraded its equipment, almost every Japanese industry allowed its equipment to age.

Average Age of the Capital Stock in the United States and Japan

(in years)

Japan			United States		
Fiscal Year:	1983	1974	Calendar Year:	1983	1974
All industries	5.67	5.01	All industries	5.42	7.26
Food processing	5.72	4.73	Food processing	6.28*	7.92
Textiles	7.17	5.43	Spinning & weaving	10.07	9.24
Pulp & paper	7.77	5.68	Pulp & paper	7.84	9.55
Chemicals	6.38	4.76	Chemicals	6.63	8.90
Pharmaceuticals	4.95	4.82	Pharmaceuticals	5.86	7.66
Oil	6.23	5.37	Oil refining	5.32	7.94
Rubber products	5.39	3.96	Cement	5.94	10.21
Glass & cement	6.18	5.03	Iron & steel	10.93	13.60
Iron & steel	7.09	4.96	Machinery	6.28	7.18
Nonferrous metals	5.92	4.90	Electric appliances	5.91	7.44
Nonelectric machinery	5.26	4.72	Semiconductors	3.10*	2.76
Electric machinery	3.67	4.10	Computers	4.22*	4.75
Shipbuilding	7.44	4.45	Shipbuilding	5.27	11.82
Motor vehicles	4.22	4.18	Motor vehicles	4.15	6.01
Precision machinery	3.56	4.15	Precision machinery	5.88	5.38
Manufacturing	5.47	4.75	Standard & Poors 400	5.40	6.95

*Figures for 1982.

Sources: Nikkei Economic Electronic Databank System for Japan; U.S. figures, Standard & Poor's Corp.

The Ministry of International Trade and Industry, which also conducts an annual study of 14 countries' capital stocks, agrees that Japanese industry is not keeping pace with the United States in modernizing production facilities. Despite a poor performance in 1982 by U.S. firms in terms of sales and return on net worth, the U.S. firms surveyed by MITI out-invested their Japanese competitors. The ratio of tangible fixed assets per regular employee, or capital equipment ratio, jumped 15.2 percent among U.S. firms, compared to only 5.7 percent in Japan. This is due mainly to the slower growth of Japanese tangible fixed assets -- 6.8 percent in 1982 versus an 8.2 percent increase in the United States.

All this has led to calls for bigger depreciation allowances in Japan and more tax credits for new investment. It has also generated a debate about comparable corporate tax rates. Major Japanese business organizations claim that they are taxed much more heavily than their American or British counterparts, although the Ministry of Finance (MOF) denies this, citing the idiosyncracies of each national tax system.

In any case, MOF is coming under increasing pressure to ease its austerity guidelines for the FY 1985 budget and give in to at least some requests. With its eye on the burgeoning national debt and the potential for losing billions of dollars in revenue, however, MOF is not in a generous mood.

Officials point to an August survey that shows industry is planning to increase capital investments 7.8 percent in FY 1985 (16.9 percent in manufacturing and 1.9 percent in non-manufacturing) on top of a 5.9 percent increase this fiscal year as evidence that no new tax breaks are necessary. The issue promises to come under discussion as the Liberal Democratic Party presidential elections approach.

Jon Choy

September May See Action on Trade Legislation

The 98th Congress may yet enact a major package of trade measures before adjourning for the November elections. In anticipation of the Senate leadership's announced intention to devote one day of debate to trade legislation, on July 31 the Senate Finance Committee approved a package of trade measures, including renewal of the Generalized System of Preferences (GSP), designation of free-trade-zone status for Israel, and 33 miscellaneous tariff proposals, that it will offer as an amendment to H.R. 3398 when this bill is considered on the Senate floor. H.R. 3398 is the House-passed tariff measure that has been amended by S. 144, the Danforth reciprocity bill.

There are also indications that Senate Finance may put together another package of trade measures that could conceivably be offered as a second amendment to H.R. 3398. It would include elements of the following bills: S. 2952, a streamlined version of the TRAC bill (S. 2139), aimed at improving the operation of U.S. antidumping and countervailing-duty laws and co-sponsored by Senators John Heinz (R, Pa.), Daniel P. Moynihan (D, N.Y.) and George Mitchell (D, Me.); S. 2963, the Small-Business Trade Remedies Act of 1984, introduced by Senator William Cohen (R, Me.); S. 2618, the Telecommunications Trade Act of 1984, introduced by Senator John C. Danforth (R, Mo.); and S. 2845, another Danforth measure that outlines the criteria the International Trade Commission (ITC) must use to determine injury to domestic manufacturers from imports. The committee has asked for public comment on all of these bills by September 5, 1984.

• S. 2963, which Senator Cohen's staff drafted in close consultation with Senator Danforth's office, would create a Small-Business Trade Assistance Office in the Commerce Department. The new office would provide technical assistance to eligible small businesses to enable them to file petitions and applications for the remedies available under U.S. trade laws. It is particularly interesting to note that the bill also contains several of the administration-backed provisions contained in the House-passed trade remedies bill (H.R. 4784), including: (1) the elimination of interlocutory appeals; (2) a provision allowing industry-labor coalitions to be treated as interested parties in a case; (3) a more routine release of confidential information in trade law proceedings; (4) a provision allowing one hearing for antidumping and countervailing-duty cases filed for the same merchandise from the same country within six months of each other; and (5) permission for the administering authority to use sampling and averaging in determinining U.S. price and foreign market value in antidumping cases.